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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

SEP 30 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

Local Exchange Carriers' Rates,)
Terms, and Conditions for)
Expanded Interconnection for)
Special Access)

CC Docket No. 93-162

REPLY TO COMMENTS ON BELL ATLANTIC'S¹ DIRECT CASE

The only parties filing comments on Bell Atlantic's direct case are potential collocators, and, predictably, they claim that the prices they will pay are too high. In fact, Bell Atlantic has fully supported its tariff and shown that any lower rates will force Bell Atlantic to subsidize the services provided to its competitors. The Commission should allow expanded special access interconnection to proceed only under the reasonable and compensatory rates, terms and conditions which Bell Atlantic has justified, not at the below-cost levels and with the unreasonable conditions which the parties desire.

In the Attachment, Bell Atlantic responds to many of the objections which the parties have raised. Bell Atlantic has already fully answered many of the other objections in its Direct Case and will not repeat those responses here.

¹ The Bell Atlantic telephone companies ("Bell Atlantic") are The Bell Telephone Company of Pennsylvania, the four Chesapeake and Potomac telephone companies, The Diamond State Telephone Company and New Jersey Bell Telephone Company.

The Commission should deny the parties' objections and find that Bell Atlantic's expanded special access interconnection tariff is just and reasonable.

Respectfully submitted,

**The Bell Atlantic Telephone
Companies**

By Their Attorneys

A handwritten signature in dark ink, appearing to read "Lawrence W. Katz", is written over a horizontal line.

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ATTACHMENT

Reply to Specific Objections

1. Claim: *Adjusting market rates for floor space results in double-counting of costs* (MFS Communications Company, Inc. ["MFS"] at 10-11, Association for Local Telecommunications Services ["ALTS"] at 21-24).

Bell Atlantic adjusted the market real estate price in two ways. First, it added a factor to account for unique physical attributes built into a central office that are not reflected in the prevailing real estate prices. These attributes include such items as higher than typical ceilings,¹ extra floor loadings,² 24 hour operation and monitoring of all necessary systems,³ strict environmental controls,⁴ and non-static flooring.

Second, Bell Atlantic added an administrative factor to account for the additional costs it incurs as a result of third parties occupying its central offices. Those costs include the continuing, complex assessments of space needs in light of third party occupancy. They are unique to telephone company operations and are not reflected in benchmark real estate prices for comparable space.⁵ The Commission tentatively required Bell Atlantic to remove these charges from the tariff, subject to investigation.⁶ They are, however, costs Bell Atlantic incurs as a result of collocation, and Bell Atlantic has the right to recover them from the cost causers.

¹ 16 feet for a central office versus 12 feet for a typical office building.

² 250 v. 100 pounds per square foot.

³ These include monitored warning systems for temperature, humidity, fire, and smoke.

⁴ E.g., higher air filtration rates and fully redundant heating and cooling systems.

⁵ See Direct Case, App. B at 22-23.

⁶ *Ameritech Operating Companies, et al.*, 8 FCC Rcd 4589 at ¶¶ 48-50 (1993).

2. **Claim:** *Bell Atlantic's stated cost of money is excessive* (MCI Telecommunications Corporation ["MCI"] at 9-10, Teleport Communications Group Inc. ["TCG"] at A-6, MFS at 2-4).

The Commission should reject the commenters' claim that Bell Atlantic's cost of capital should equal its authorized rate of return, because the two concepts are separate and distinct. Rate of return is a regulatory determination of the amount a utility is permitted to earn on its embedded investment, based on the embedded cost of debt, capital structure, and cost of equity. The cost of capital is a forward-looking estimate of the actual rate that will be required to attract investors when Bell Atlantic enters the financial markets to raise new capital. It is determined by adding the weighted cost of debt to the weighted cost of equity. Bell Atlantic has previously explained in detail and justified its cost of capital, and the commenters' arguments do not refute that justification.⁷

The Commission should also deny the allegation that the cost of capital should be tied to the prime rate. Prime rate relates to short-term borrowing, not the long-term investment in equipment needed for collocation.

MCI has misstated Bell Atlantic's cost of capital, which is between 12.8% and 13.0%,⁸ not the 13.75% to 15.05% that MCI cites. MCI's confusion appears to be its use of the Commission's cost of money calculation, which understates the investment life, thus driving up the apparent cost of money.⁹

Cost of money expenses for each account are impacted by the Commission-prescribed depreciable life of the equipment in the account. Differences in the depreciable lives of various equipment justify the different costs of money expenses in different accounts.

⁷ Direct Case, App. B at 4-8 and Exh. 1.

⁸ See Direct Case at Exh. 1.

⁹ The Commission's calculation derived the life of the investment by dividing the investment by the depreciation expense. This methodology fails to account for the gross salvage value and the cost of removal portions of the depreciation expense.

3. Claim: Bell Atlantic has failed to submit Tariff Review Plan ("TRP") cost information for all functions it offers (ALTS at 8).

Bell Atlantic submitted information on each service for which it proposed recurring charges. At the request of the Common Carrier Bureau, Bell Atlantic has recently submitted TRP information on non-recurring charges.¹⁰

4. Claim: Construction charges in Bell Atlantic's tariff are excessive (ALTS at 24-26, TCG at A-4).

Bell Atlantic has provided detailed documentation of the costs it expects to incur in constructing facilities for collocators, including actual proposals from contractors.¹¹ Collocators have a choice of constructing their own cages if they believe their contractors can construct their cages for a lower charge than can Bell Atlantic's contractor.

5. Claim: The security arrangements that Bell Atlantic has imposed in its tariff are excessive and are greater than those interexchange carriers require for companies that lease space in their points of presence (ALTS at 8).

Bell Atlantic has fully justified the need for the security arrangements.¹² A primary obligation of an exchange carrier is to take all reasonable steps to ensure that local telephone customers receive uninterrupted telephone service, and the requirements for escorts and controlled access are designed to help meet that obligation.

The affidavit that ALTS attaches to its filing has no relevance to security arrangements in Bell Atlantic central offices. The president of Eastern TeleLogic Corporation asserts in his affidavit that the security measures in the handful of interexchange carrier ("IXC") points of presence ("POPs") in which Eastern has facilities are less substantial than those Bell Atlantic proposes for its central offices. Unlike Bell Atlantic, IXCs are not required to provide collocation in all their POPs -- collocation may be limited to only those POPs for which the IXCs have easily isolated space and, therefore, security will be a minor problem -- and they may refuse to provide space to companies that they believe may constitute security risks. Bell Atlantic must provide collocation on request in every central office in which it

¹⁰ Supplement to Bell Atlantic's Direct Case (filed September 24, 1993).

¹¹ Direct Case at Exh. 6-10.

¹² Direct Case, Att. B at 26-27.

has available space, no matter how much of a security risk it poses, and to every entity that requests collocation. Bell Atlantic will invoke the maximum security arrangements in the tariff only where they are required to make secure space available for collocation in a particular central office.

6. Claim: *Bell Atlantic has not justified the inflation factor it uses to adjust the vendor price of equipment it procures to offer service under the tariff (MFS at 4-5).*

Adjustment of vendor price lists to reflect current inflation levels in lieu of continually procuring and monitoring new lists is a traditional costing practice in the telecommunications industry. The inflation factor that Bell Atlantic used for this purpose is the actual historical price trend for the type of equipment being procured -- not the GNP or any other broad economic measure. In fact, application of an "inflation factor" to the previous year's investment in certain types of equipment, such as circuit equipment, will actually result in a lower current investment, because of the downward trend in the price of advanced technology. Bell Atlantic derived the specific inflation factor which MFS singled out -- 11.2% for AC power -- from Department of Energy figures showing the actual annual increases in electric power charges.¹³

7. Claim: *It is unreasonable for Bell Atlantic to require a collocator to purchase a dedicated cable rack for each cross-connection ordered (TCG at A-5, MFS at 15-16).*

MFS asserts that, because network cable racking is offered on a "per service" basis, it forces collocators to purchase a dedicated cable rack for each cross-connection. This is not true. Bell Atlantic spread the racking investment over the number of cross-connections that collocators in an average central office were expected to demand. Potential collocators have told Bell Atlantic that they require a route in the central office that is not shared with Bell Atlantic's own services, and Bell Atlantic's tariff was based upon that assumption. Contrary to MFS's claim, Bell Atlantic has not proposed a separate route for each cross-connection, nor are the tariff rates based upon that assumption.

¹³ Department of Energy Form 826, Engineering User News Survey.

8. Claim: *Bell Atlantic failed to adhere to the Commission's requirement to specify construction charges for each office in its tariff; instead it substituted time and materials charges (MFS at 17-18, TCG at A-4).*

The cost to prepare space in each central office varies widely, and unforeseen construction costs may be incurred when the work actually begins, as Bell Atlantic discussed in the Direct Case.¹⁴ Accordingly, it is reasonable to charge the collocators -- the sole causers of the construction costs -- for the exact amount of time and the materials that it takes to construct the space. A prior estimate of those costs would be just that, an estimate, and could result in under- or over-recovery of Bell Atlantic's costs.

9. Claim: *It is unreasonable to charge collocators to remove asbestos in offices in which they collocate (MFS at 20-21).*

Both federal and local regulations generally provide that asbestos in existing buildings that is not in "friable condition," and therefore poses no threat to health, need not be removed unless it is disturbed. The remodeling needed to provide space for collocators will be, in most cases, the sole cause of disturbing the asbestos -- Bell Atlantic would have no plans to remodel the office for any other purpose. Principles of cost causation, therefore, dictate that the cost of the asbestos removal be charged to the collocator.

10. Claim: *It is unreasonable to prohibit termination of dark fiber facilities into collocated space (MFS at 27-31, ALTS at 34-35, TCG at B-5 to 6).*

Bell Atlantic's dark fiber offering provides a facility between two customer premises, and the customer provides electronics at both ends. A cross-connection, by contrast, connects a Bell Atlantic switch or frame with a collocator's equipment. By definition, such a connection cannot be "dark," because Bell Atlantic must provide electronics at one end to "light" the fiber. The two services are fully distinguishable.

¹⁴ Bell Atlantic's approach is similar to that used by other landlords and building contractors. It recognizes that different collocators may have very different needs, even within the same central office and avoids the claim that Bell Atlantic is offering only "cookie-cutter" space to its customers. See Direct Case, Att. B at 36.

11. Claim: Repeaters should not be required as part of the cross-connect service (MFS at 13-15, ALTS at 27-28, MCI at 4 and 10, Sprint Communications Company L.P. at A-14 to 15, TCG at A-2).

The use of repeaters for each arrangement both ensures that collocators obtain continued high-quality service and prevents degradation of others' service through cross-talk and reduced data throughput. Unless it provides repeaters, Bell Atlantic cannot warrant that it will be able to maintain the quality of service of all affected customers, not just the collocator.¹⁵

The competitive access providers ("CAPs") themselves require customers to purchase repeaters or other equipment whenever the CAPs unilaterally decide they are necessary to protect the CAP's network. For example, TCG gives itself the right to provide, at the customer's expense, any "protective equipment required to prevent such damage or injury."¹⁶ In view of the fact that the CAPs themselves believe that their customers should be required to subscribe to protective equipment, such as repeaters, the Commission should not find that Bell Atlantic's similar provision, included for similar purposes, is unreasonable.

12. Claim: Bell Atlantic's claimed investment in DC power facilities is excessive (TCG at A-6 to 7).

The table in TCG's filing that sets out the power investments is in error. By failing to allocate Bell Atlantic's DC power investment on a 40 amp basis, TCG misstated Bell Atlantic's investment for 40 amps of DC power as \$258,915, whereas the proper figure should have been \$17,261.

13. Claim: Bell Atlantic imposes an unreasonably short period (90 days) during which a collocator must begin offering service through its collocated facilities (TCG at B-8 to 9).

The principal purpose of providing a time limit for collocators' use of collocated space is to prevent one collocator from preventing other collocators or Bell Atlantic from providing new or expanded service by warehousing space it has no intention of using. This is similar to provisions on efficient use of the

¹⁵ ALTS erroneously asserts that Bell Atlantic requires collocators to subscribe to "POT Bays" in addition to repeaters. ALTS at 27. ALTS member TCG correctly states that "Bell Atlantic...do[es] not require a POT Bay." TCG at A-1.

¹⁶ TCG, Tariff F.C.C. No. 1, Section 2.4.2.

collocators' space, which the Commission has sanctioned.¹⁷ Bell Atlantic will evict a collocator that is not operating within 90 days only if another collocator is being deprived of the ability to provide expanded interconnection through that office, i.e., all available space in a central office has been exhausted and there is a request from another collocator for the space, or if Bell Atlantic requires the space to provide service to its customers.

14. Claim: *Bell Atlantic should not be permitted to terminate service for every breach of the tariff provisions* (TCG at B-12 to 13).

Expanded special access interconnection is a tariffed telecommunications service offering. Like any such offering, if a customer breaches provisions of the tariff, it is violating the terms and conditions under which it subscribed to the service, and Bell Atlantic has an obligation to enforce the tariff by discontinuing service. TCG cannot have it both ways. It has pressed hard for a Commission ruling that the leasing of central office real estate is a tariffed common carrier service, yet it wants to be relieved of the obligation that any customer has to abide by all the terms of the tariff.

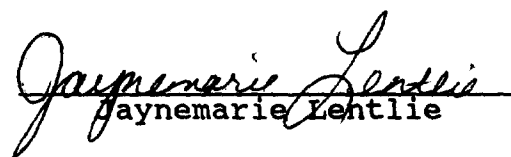
15. Claim: *It is unreasonable to consider a collocator's request to expand its existing space within a central office as a new order* (ALTS at 34).

The design and planning work to accommodate expansion of a collocator's space is as extensive as the initial design and planning. Both include order processing, planning for the modification of central office space, assessment of the construction costs to meet the collocator's request, and new construction vendor bid solicitations. Accordingly, it is appropriate to charge for the design and planning of expansion on the same basis as an initial collocation order.

¹⁷ *Expanded Interconnection with Local Telephone Company Facilities, Report and Order and Notice of Proposed Rulemaking*, 7 FCC Rcd 7369 at ¶ 80 (1992).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Reply to Comments on Bell Atlantic's Direct Case" was served this 30th day of September, 1993, by first class mail, postage prepaid, to the parties on the attached list.


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